

GLOBAL TRADE IN FOREST PRODUCTS: IMPLICATIONS FOR THE FOREST PRODUCTS INDUSTRY AND TIMBER RESOURCES IN NEW ENGLAND

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Global trade in forest products has been expanding at 4.5% per year over the past decade; however, the U.S. is losing its competitive position. Today, we import 20% of our paper and board; 25% of our plywood and OSB; 37% of our softwood lumber; 55% of wood household furniture; 30% of hardwood molding, and 50% of softwood molding. In 1990, we were self-sufficient in OSB and plywood and we produced almost 80% of the softwood lumber, molding products, and household wood furniture consumed in this country. Globalization and other trends have exposed our domestic industries to new and stronger international competitors while shifts in currency exchange rates are playing a bigger role in global commodity markets. Studies have identified a clear trend in forest products (indeed U.S. manufacturing in general) away from labor intensive and toward more capital intensive enterprises.

The New England forest products industry is one of the least competitive regions in the U.S. Wood costs are approximately 20% to 25% higher than the U.S. South, and, as consumption of plantation wood expands, the South's cost advantage will increase. In addition, with commodities, scale economies are key, and plant size in New England is only about half the scale of sawmills and OSB mills in the South and Canada. How does the industry see New England as a potential investment - you can count on one hand the number of new mills (lumber, OSB, pulp & paper) built in the past decade.

What about the forest resource? We believe that to have a healthy forest resource, we need a healthy forest products industry. There is a high correlation between timberland values, timberland prices, and profitability of conversion facilities. The U.S. forest products industry is not as healthy as its counterparts in South America and Europe where average ROCE (return on capital employed) for past 6 years is 7.5% in South America; 6.5% in Europe; compared to 5.3% in the U.S. and 4.3% in Canada. Part of the reason is that real CAPEX spending by our lumber industry, for example, has fallen 28% in the past 6 years.

Is there a solution? We believe some of our industry has to move up the food chain by adding value to their product mix; others (ex. Boise and GP) will move up the supply chain by divesting timberlands and forest product operations while becoming "consumer product" companies; consolidation will help those that decide to stay in commodities; others will have to find niche markets while some disappear altogether. A key to moving up the food chain will be more R&D, but the forest products industry doesn't do much R&D. That will have to change. If the forest products industry is to become globally competitive, things need to change, which in turn will require strong leadership.